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NATIONAL INTELLIGENCE DAILY CABLE

Thursday March 24, 1977

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State Dept. review completed

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NATIONAL SECURITY INFORMATION

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National Intelligence Daily Cable for Thursday March 24, 1977

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The NID Cable is for the purpose of informing senior US officials.

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ITALY: Political Pressures

25X1 [] Domestic political pressures on Italian Prime Minister Andreotti have been building markedly during the past few weeks. These pressures are adding to the atmosphere of tension that surrounds his current talks with political and labor leaders over the terms of a \$530-million credit negotiated with the International Monetary Fund last week. The odds favor a compromise, but the risks of government collapse are greater now than at any time since Andreotti took office last August.

25X1 [] The IMF is insisting that Italy retain as part of its economic program a decree law that has come under increasing fire from the unions and the leftist parties. The decree--which must be approved by parliament within the next two weeks to stay in effect--is designed to discourage companies from granting further wage increases this year and to prevent certain tax increases from triggering automatic cost-of-living wage hikes.

25X1 [] Prior to the conclusion of the IMF negotiations, government, party, and union officials appeared inclined to seek some sort of modification of the decree law. In the course of discussions with IMF negotiators, however, Andreotti apparently decided to force the issue by agreeing to insist on the retention of the decree, or some equivalent anti-inflationary measure.

25X1 [] The IMF agreement has thus had the effect of narrowing Andreotti's room to maneuver. This comes at a time when discontent appears to be growing in both Andreotti's Christian Democratic Party and the Communist Party over the generally cooperative relationship that has developed between the government and the Communist leadership.

25X1 [] Communist Party supporters have from the outset harbored misgivings about the decision of their leaders to support Andreotti indirectly by abstaining in parliament. These misgivings have grown as Andreotti has gradually implemented an austerity program requiring substantial sacrifices by Communist supporters at a time when the party does not appear to be making significant progress toward a more formal role in the government.

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[] The misgivings of many Communists were brought into sharper focus during the recent round of student violence, when the party was unable to assert any control over student militants, some of whom branded the Communists as part of the establishment. That experience intensified debate in the party over the merits of its cooperative stance toward the government. The debate in turn has led the Communists to step up pressure for new political concessions.

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[] Although the Communists are calling for membership in a broad government of "national emergency," they would apparently be satisfied with something less, such as a formal agreement on a government program among the parties that support Andreotti. The party's push for such a concession will be hindered, however, by its clear desire to avoid responsibility for provoking a government crisis.

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[] While many Communists believe that Andreotti has not conceded enough to their party, a growing number of Christian Democrats argue that he has gone too far in accommodating the Communists. This disenchantment is particularly pronounced in the right wing of the Christian Democratic Party, with some leaders, such as senate president Fanfani, making no effort to conceal their dissatisfaction. Disgruntled Christian Democrats say, for example, that Andreotti's desire not to offend the Communists has led him to water down his austerity program and avoid harsh measures in dealing with the country's growing political violence.

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[] No Christian Democrat appears to have a realistic plan for replacing Andreotti with a government less dependent on the Communists. Some of Andreotti's party rivals might be willing to risk another early election, however, hoping that the Communists have lost some of the momentum they had a year ago.

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[] Despite the growing uneasiness in political circles, most party leaders still seem inclined to step back from the brink and seek some sort of compromise. The major party leaders who discussed the IMF issue with Andreotti earlier in the week were noncommittal, but all avoided inflammatory rhetoric in commenting on the talks. In addition, Andreotti is reportedly in close touch with the Communist hierarchy behind the scenes in an effort to work out an agreement.

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[] The caution of the leftist parties is a positive sign, but it also reflects their reluctance to get out of step with generally more militant labor leaders who have not yet completed consultations with Andreotti. Andreotti will probably have a harder time securing the cooperation of labor, whose initial reaction to the IMF terms was harsher than that of the parties. Labor protests frequently persuaded the left to stiffen its line in earlier talks on Andreotti's program.

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[] Thus, while Andreotti has many factors working in his favor--the reluctance of all parties to topple him, the absence of an alternative to his government, and Italy's clear need for financial assistance--he will need all his formidable negotiating skills to keep tensions in check. []

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UK: Government Survives

25X1 [REDACTED] //The British Labor government, with the support of the Liberal Party, won the confidence vote in Parliament yesterday by 322 to 298.//

25X1 [REDACTED] //Prime Minister Callaghan secured the votes of all 13 Liberal Party members earlier in the day when he and Liberal Party leader Steel announced that their parties would enter into regular and formal consultations "in pursuit of economic recovery" for the UK. Agreement was reached to maintain the arrangement until the end of the current parliamentary session, when both parties will decide if it should be continued.//

25X1 [] //Under the plan, a joint committee will meet once a week to examine Labor and Liberal proposals before they are presented to Parliament. The leaders of the two parties will meet when necessary.//

25X1 [] //Callaghan also promised to introduce legislation during this session of Parliament to facilitate direct elections to the European Parliament, and he agreed to consider Liberal Party views on proportional representation and home rule for Scotland and Wales.//

25X1 [] //Although Labor Party left-wingers criticized the agreement with the Liberals on the grounds it would impede the introduction of additional "socialist" legislation, they maintained party discipline in the confidence vote.//

25X1 [] //Although the confidence vote highlighted the fragility of Labor's position in Parliament, the pact it forced with the Liberals will probably assure Labor's continuance in power at least until November.//

25X1 [] //Conservative Party leader Thatcher will undoubtedly come under attack for failing to unite the opposition parties, particularly when Labor had had such limited support in Parliament. The decision to force a confidence vote at this time will probably also be seen as a major tactical blunder.

CHINA: Drought

25X1 [] Drought in key growing areas of the North China Plain continues to threaten the winter wheat crop that accounts for 15 to 20 percent of China's annual grain output. Substantial rainfall during the next three weeks could still save most of the crop.

25X1 [] China's leaders, already faced with the task of recovering from the slow agricultural growth, poor industrial performance, and devastating earthquakes of 1976, reacted to the drought situation by convening a nationwide emergency telephone conference last weekend. Referring to the drought as the

worst since 1949, Peking has launched a highly publicized mass campaign to mobilize the peasants and the People's Liberation Army to conduct antidrought work in those areas most seriously affected.

25X1 [] Rainfall at this time is important because the winter wheat crop is usually close to the wilting point in spring. Winter rain and snow cover--important sources of moisture for the re-emergent wheat--were below average in all the key growing areas except for Hopei Province and the outskirts of Peking.

25X1 [] A poor winter wheat harvest would not be catastrophic for China, but it would aggravate current tight supply conditions. Peking may feel compelled to compensate for losses with increased imports, but it is unlikely to make additional wheat purchases in the next month or so.

25X1 [] China's total output of grain last year probably was 280 million tons, about the same as in 1975 and an increase of 2 to 3 percent over 1974. Wheat imports scheduled for this year so far total 5.1 million tons; most will be arriving before July. This is more than double the imports in 1976, but only about average for the last 10 years.

25X1 [] Antidrought measures being taken are aimed at using all available water resources to the fullest and include efforts to dig new wells, locate and tap new springs, and install and maintain water pumping equipment, as well as traditional techniques of hand-carrying water to fields.

25X1 [] //In addition to attempting to minimize the effects of the drought, the campaign and the attendant publicity may be intended to justify a widespread austerity effort that includes in at least one area a call to reduce family grain consumption. Losses suffered in the current drought may force additional belt tightening on the Chinese people. After the purge of the "gang of four" last October, the public had expected economic improvements.// []

OPEC: Keeping up with Inflation

25X1 [] The purchasing power of members of the Organization of Petroleum Exporting Countries is not being eroded by Western inflation, as officials of many OPEC countries had feared.

25X1 [] Oil price hikes since early 1974 roughly equal the rise in import prices for OPEC countries. We estimate that from first-quarter 1974 until March of this year, OPEC import costs in the aggregate have risen 23 to 24 percent. Over the same time period, oil prices measured in terms of benchmark crude have risen at least 25 percent.

25X1 [] Many OPEC members have argued that a large catch-up oil price increase is needed to offset Western inflation. Price data gathered in some OPEC countries probably support their claims. OPEC members' import price data are often distorted by costs unrelated to Western inflation--such as demurrage charges, pilferage, and domestic "commissions.

25X1 [] OPEC members' earnings on financial assets also have equaled or exceeded the increases in OPEC import prices over the last three years. Measured in dollar terms, we estimate that OPEC members earned nearly 9 percent on their foreign assets in 1974 and had returns of 5.6 percent and 5.8 percent in 1975 and 1976, respectively.

25X1 [] The return on OPEC's foreign assets, however, is low in comparison to earnings that could be expected from a well-managed US trust account. The low rate of return reflects the large proportion of OPEC funds still invested in short-term assets, which currently carry low interest rates, and the losses incurred in the dollar value of their portfolio because of sterling's decline.

25X1 [] Short-term dollar assets, which accounted for about half of the OPEC portfolio in 1976, earned an average of 4.8 percent last year. Medium- and long-term dollar assets earned 6.8 percent. OPEC earned 11 percent on its sterling portfolio in 1976, but the decline of the pound against the dollar resulted in a negative dollar rate of return for the year.

25X1 [] To increase the yield on their investments, some OPEC members are investing more heavily in longer term assets. This shift makes OPEC investments more vulnerable to an increase in Western inflation. By opting now for longer term assets and higher yields, OPEC members are committing themselves to an interest rate structure that, unlike short-term yields, will not rise sharply if Western inflation increases dramatically again.

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[] If inflation increases substantially, countries with large financial surpluses, such as Saudi Arabia, the United Arab Emirates, and Kuwait, will be tempted to cut back oil production and reduce new investment in the West. Production cutbacks would probably raise oil prices and add to inflation, however. []

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CONGO: Tribal Tensions

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[] The death in Congo on Tuesday of the archbishop of Brazzaville reportedly occurred during his interrogation by the recently organized military committee. Officially inspired press reports have stated that the archbishop, who was from the southern part of the country, was killed by relatives of assassinated President Ngouabi, a northerner.

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[] The archbishop was one of a number of Congolese arrested last week, along with former president Massamba-Debat, for their alleged involvement in the assassination of Ngouabi. Radio Brazzaville has announced that Massamba-Debat has confessed to organizing the assassination plot; according to one report, he may subsequently have been killed.

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[] //The military committee has promised to deal harshly with the plotters. In doing so, it runs the risk of exacerbating tensions between tribesmen of Congo's northern and southern regions, which have a long history of animosity.//

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EC SUMMIT: Representation

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[] //A confrontation over the question of EC representation at the London economic summit on May 7 and 8 threatens to dominate the two-day European Council session that opens in Rome tomorrow.//

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[] //EC officials are afraid the debate will shift the attention of the nine EC heads of government away from several important items, including:

--The development of a Community position on North-South issues.

--Preparations for the follow-up European security conference to be held in Belgrade.

--Discussion of the EC's economic and financial problems.

--Trade relations with Japan.

--A French proposal to improve the workings of the European Council itself.//

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[] //The five small EC states, with the support of the EC Commission, insist that the Community be represented at the London summit by Commission president Jenkins. The French strongly resist Community representation, arguing that an EC presence is not required, since no decisions are taken at such meetings.//

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[] //Although the French have indicated they might agree to having British Prime Minister Callaghan--the current president of the EC Council--represent the EC as well as the UK at the summit, the smaller states have rejected such a compromise.//

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[] //The Dutch and the Danes have pushed hardest among the five for an EC Commission presence at the summit. The Danes had also been insisting that all nine states be represented, but recently they backed off from this demand.//

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[] //The Dutch and the Belgian positions may be weakened somewhat in Rome given the caretaker status of their governments, although the Dutch parliament last week unanimously passed a motion urging that strong action be taken at the European Council to ensure EC summit participation.//

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[REDACTED] //The West Germans and the Italians support the principle of EC representation but would like to avoid a major confrontation with the French over this issue in Rome. [REDACTED]

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[REDACTED] //The British have avoided taking a position prior to the Rome meeting, saying simply that they will accept Jenkins' presence if that is the consensus of the Nine. [REDACTED]

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FRANCE: Aircraft Carrier Cruise

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[REDACTED] France is preparing to send the aircraft carrier Clemenceau to the Indian Ocean via the Suez Canal. The French press reports that the ship, carrying fighter aircraft and helicopters, will leave the Mediterranean port of Toulon in several weeks.

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[REDACTED] The carrier will participate in exercises with French naval forces already in the Indian Ocean and return to Toulon in early summer. The cruise date reportedly was advanced so that the Clemenceau could be in the area of the French Territory of the Afars and Issas at the time of its independence in late June.

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[REDACTED] Although the French maintain small military contingents on Reunion and the Comoro Islands, Djibouti, the capital of the FTAI, is France's only major base remaining in the Indian Ocean. The French may be asked to leave the base after the FTAI achieves its independence.

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[REDACTED] Djibouti's strategic location near the entrance to the Red Sea has enabled the French to protect key oil supply routes to the West and to monitor Soviet naval activity in the Gulf of Aden. //The French Indian Ocean flotilla, which numbers about 15 ships, is the largest Western naval force in that ocean. Although the USSR usually has a few more naval ships in the Indian Ocean, the French have the superior military force.

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[] //Perhaps more than the other French services, the navy reflects France's perception of itself as a world power--ready and able to influence international events and protect French interests around the world. The French have already established floating command and support facilities in the Indian Ocean and appear determined to maintain a sizable naval presence there regardless of the fate of their Djibouti base.//

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US-USSR: Trade

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[] Large Soviet imports of US grain pushed US-Soviet trade to a record \$2.5 billion in 1976, according to US Department of Commerce statistics. Trade this year probably will be lower because last year's excellent Soviet grain harvest has reduced the need for US grain, and no significant increase in other trade is likely.

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[] US exports to the USSR last year rose 26 percent, to \$2.3 billion, making the US the leader among Western exporters to the USSR. The poor 1975 Soviet harvest led to imports of US grain totaling \$1.35 billion and of soybeans worth \$125 million, which together accounted for 64 percent of US exports to the USSR. Machinery and equipment exports to the USSR were up 11 percent, to \$605 million. Other important exports were plastics, structured steel, and textiles.

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[] Soviet exports to the US in 1976 fell 13 percent, to \$221 million; Moscow had hoped improved economic conditions in the US would help boost Soviet sales over the disappointing 1975 level. Exports to the US in 1976 consisted largely of raw materials, including platinum group metals, crude and fuel oil, chrome ore, and diamonds.

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[] The combination of higher imports and slumping exports combined to produce a record \$2.1-billion Soviet trade deficit with the US. Recently released Soviet statistics show a larger deficit with the US that would account for almost half of the Soviets' \$4.9-billion global hard-currency trade deficit in 1976.

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[] Reduced Soviet purchases of US grain indicate that US-Soviet trade this year will not reach the 1976 level. Soviet orders placed in 1976 under the long-term grain agreement will account for \$600 million worth of US corn, wheat, and soybeans to be delivered this year. Under the agreement, the Soviets will be placing orders for a minimum of 6 million tons from this year's US grain crop, although only 2 million tons will actually be delivered to the USSR in 1977 if this year's Soviet crop is normal. Soviet agricultural imports from the US would thus drop from \$1.5 billion to about \$800 million.

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[] Soviet imports of US machinery and equipment in 1977 will probably be at about the same level as last year.

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[] We do not expect any major changes in the quantity or mix of Soviet exports to the US. Oil exports, which have averaged \$85 million annually since 1974 and have consisted mainly of fuel oil, have the greatest potential for fluctuation. The Soviets for some time have been interested in shipping crude to the US; the latest negotiations have been for 12,000 to 15,000 barrels per day, valued at roughly \$60 million annually.

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[] Exports of platinum group metals, a mainstay of Soviet trade, are expected to continue at current levels. The repeal of the Byrd amendment is expected to have little effect on demand for Soviet chrome. Moscow is hoping for a substantial gain in gold coin sales to the US; this item became important for the first time last year, when sales totaled \$13 million.

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[] The Soviets assert that the US has lost \$2 billion in Soviet business since Moscow's denunciation in January 1975 of the US Trade Reform Act of 1974, which tied US Eximbank credits and most-favored-nation tariff treatment to the emigration of Soviet Jews. Although the Soviet claim is probably an exaggeration, a substantial volume of orders would have been won by US firms if Eximbank credit had been available. General Secretary Brezhnev's most recent criticism of the trade act was leveled on Monday.

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[] In a new twist, the Soviet press has recently referred to US trade legislation in the context of Basket II--the economic parts of the Helsinki accords--which calls for increased

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East-West trade and commercial contacts. In a late February *Izvestia* interview devoted to Basket II, Deputy Minister of Foreign Trade Manzhulo cited the "adverse effect on the development of trade and economic ties" of the US legislation.

25X1 [] Some of the main features of US-Soviet trade in recent years are likely to continue beyond 1977. Soviet harvests will continue to be the main determinant of annual trade levels. Moscow's high regard for US technology, which is reflected in recent contracts and continued negotiations, indicates that even without Eximbank credits, imports of US equipment should continue at about the 1976 level. This is likely to be the case especially in areas in which the US has a clear advantage--such as various types of oil exploration and pumping equipment, computers, and large earth movers.

25X1 [] Several other factors will sustain US-Soviet trade. The long-term grain agreement calls for the USSR to purchase at least 6 million tons of US grain--worth about \$700 million--annually through 1980. In addition, a 1973 agreement between Occidental Petroleum and the USSR provides for the Soviets to export ammonia, urea, and potash in exchange for several hundred million dollars worth of US superphosphates. Occidental Petroleum's purchases from the USSR, valued at a similar amount, will not all be shipped to the US. []

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CEMA: Investment Bank Seeks Loan

25X1 [] The International Investment Bank of Eastern Europe's Council for Mutual Economic Assistance is seeking a \$300-million Eurodollar loan from a syndicate led by Commerzbank of West Germany. This would be the third large Western loan to the bank since October 1975; the other two, also managed by West German banks, were of \$350 million and \$600 million.

25X1 [] The terms and purpose of the loan now being sought are not known [] the loan would be on behalf of IIB's sister bank in CEMA, the International Bank for Economic Cooperation. IBEC's efforts to obtain a \$200-million loan were thwarted in January when British legal advisers to the consortium of lending banks questioned IBEC's legal status and the possibilities for legal recourse in the event of default.

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[] Although it is possible that some of the loan is for IBEC, IIB has large financial needs of its own and has been planning to borrow on the Eurodollar market since shortly before IBEC failed to obtain its loan. IIB is financing the East European countries' contribution to the gas pipeline being built from the Orenburg gas field in the USSR to the Soviet-Czechoslovak border. To cover the estimated cost of the pipeline, several hundred million dollars will be needed in addition to the almost \$1 billion the bank has already borrowed.

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[] Syndication of a new IIB loan may be difficult. The problems encountered with the IBEC loan will make bankers wary of making a new loan, although research has already indicated that IIB's charter gives it a legal status more comforting to the bankers than IBEC's. In addition, the new loan would probably be carried out under West German law, which is not as restrictive as the British law that applied to the IBEC loan.

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[] The legal problems may prove to be less an obstacle to the IIB loan than IIB's credit status. In addition to the increased reluctance of Western banks to lend to CEMA in general because of the East's rapidly growing debt, IIB's past heavy borrowing--particularly in relation to the bank's meager capitalization--is likely to complicate the current loan further. At the least, IIB will probably be asked to pay a high rate of interest on the loan--possibly a higher rate than the 1.25-percent interest spread over the London interbank rate that the IBEC loan carried. []

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SOUTH KOREA: Human Rights

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[] The South Korean government and its domestic opponents are watching closely for any US reaction to the recent confirmation by the South Korean Supreme Court of sentences for the so-called Myongdong dissidents. The group is named for the cathedral in Seoul where it issued an antigovernment manifesto a year ago.

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[] The government clearly anticipates some form of US criticism, but one of President Pak's aides has urged privately that the US refrain from a strong, specific, and public statement.

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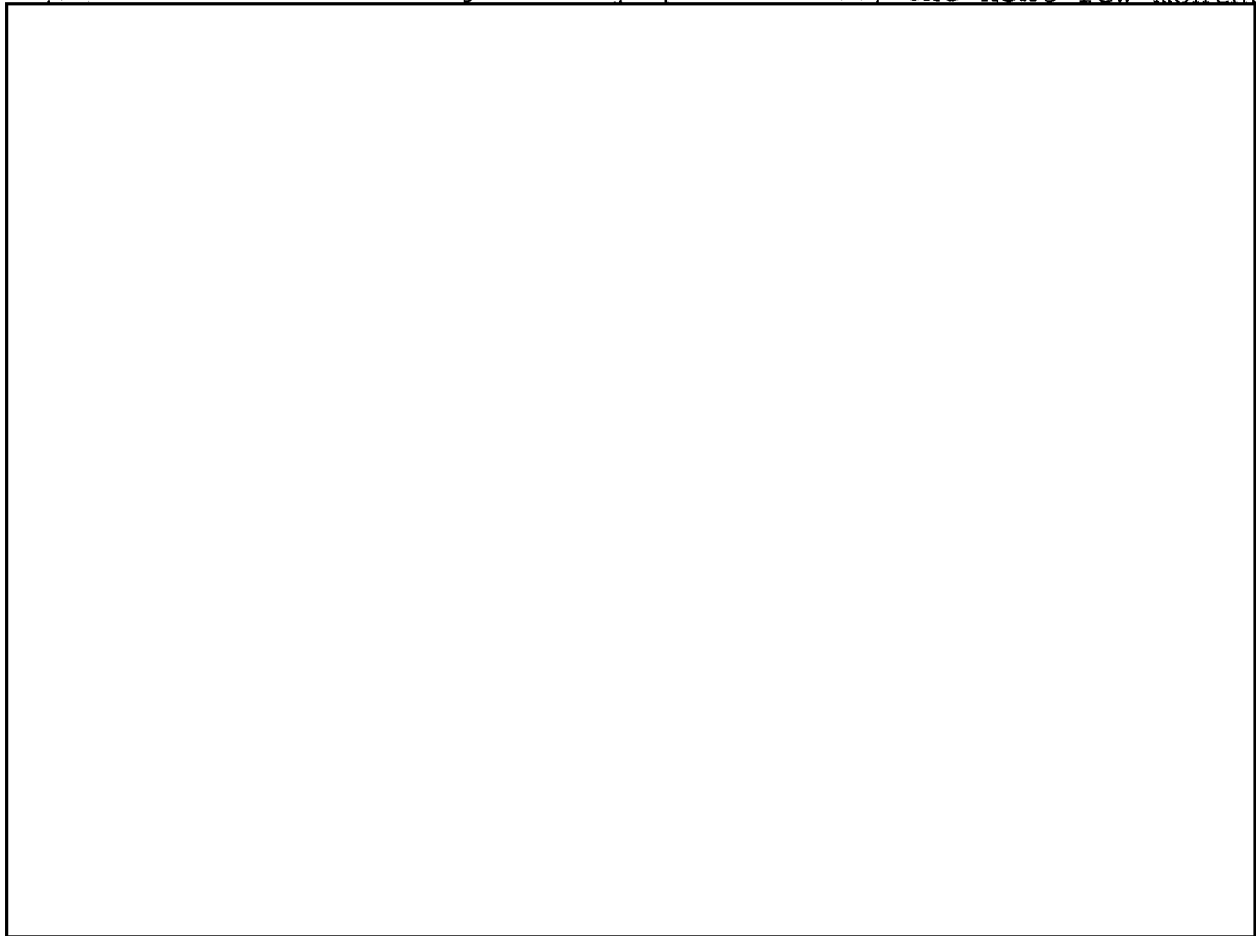
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[REDACTED] Critics of Pak, on the other hand, are concerned that, should the final sentencing of the Myongdong defendants pass quietly, international and especially US interest in the human rights issue in South Korea may fade. Pak's adversaries are hoping for a strong US reaction to the court ruling even if its immediate consequence is a stiffening of political controls. This helps explain the renewed public challenge of Pak's rule by several of the Myongdong group, including former president Yun Po-sun, immediately after the sentencing.

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[REDACTED] The US embassy reports that the South Korean public has reacted calmly so far to the sentencing, and that Pak's more moderate opponents were not surprised by it. Many South Koreans reportedly believe, however, that amnesty for the Myongdong defendants is still possible at some point, perhaps if the political situation remains generally quiet during the next few months.

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CUBA-AFRICA: Castro Visit

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[] Cuban President Castro arrived yesterday in Angola, the latest stop on his tour of southern Africa. Despite Cuba's extensive involvement in Angola, this is Castro's first visit to the country, although he has met with President Neto on two previous occasions.

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[] Castro will be interested in discussing, among other things, why Neto has not been able to cope with Angola's insurgency problem. Cuban troops, together with government soldiers, have sustained substantial casualties over the past year but have made little headway in reducing the insurgency.

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[] While in Mozambique, Castro by-passed much of the sight-seeing that marked his Tanzanian visit and conferred at length with President Machel and other Mozambican leaders. No details of the talks have been disclosed, but Castro was quoted as saying he was ready to "intensify" the good relations between the two countries, and the Mozambican press announced that a "cooperation" agreement had been signed.

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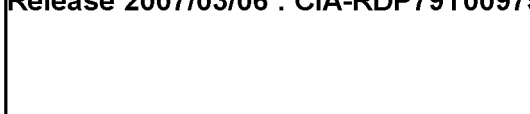
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[REDACTED] There are still indications that Castro intends to go on to Zambia, but no date for his arrival has been announced. The press in Lusaka has suggested that Castro will hold talks with Rhodesian nationalists during his Zambian visit. Soviet President Podgorny, now in Tanzania, is scheduled to arrive in Zambia on Saturday. [REDACTED]

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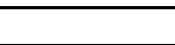


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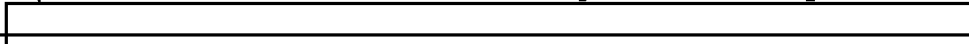


SPAIN: Electoral Law

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 Spain's new electoral law, published officially yesterday, is worded in such a way as to allow Prime Minister Suarez to run in the June parliamentary election if he so chooses. It specifically forbids current ministers to participate unless they first resign their government posts, but Suarez is exempted by virtue of his formal title as President of the Government.

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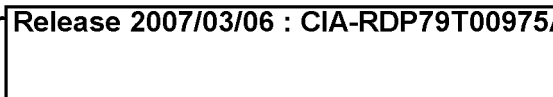
 //Suarez' options thus remain open, pending a decision by the Supreme Court on whether to legalize the Spanish Communist Party. 

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